

**BLUEGROUSE**  
SEISMIC SOLUTIONS LTD



BlueGrouse Seismic Solutions Ltd. is a Calgary-based company focused on providing the oil and natural gas industry with quick, reliable access to cost-effective, high-resolution seismic data.

BlueGrouse has four main components to its business model:

- Data Library: building our own data library ownership through acquisition of existing inventories
- Multi-Client Surveys: creating new seismic data inventories by recording multi-client surveys (SilverTip Surveys our 64% owned subsidiary)
- Data Brokerage: licensing existing seismic data between oil and gas producers
- Data Management: managing existing seismic data for the purpose of brokering sales

BlueGrouse was incorporated in 2000 as a privately held company and became listed on the TSX Venture Exchange July 26, 2005 through the reverse takeover of Amusements International Ltd.

BlueGrouse trades on the TSX Venture Exchange under the symbol BGH.

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The Annual General Meeting of Shareholders of BlueGrouse Seismic Solutions Ltd. will be held on Wednesday, April 26, 2006 at two o'clock in the afternoon at the Aquitaine Building meeting room, Plus 15 Level, 540 – Fifth Avenue SW, Calgary, Alberta. Shareholders are encouraged to attend. Others interested in the affairs of the Company are welcome.

**Disclaimer**

Certain information contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time that such statements are made. Except as required by applicable law, BlueGrouse does not update forward-looking statements should circumstances change or management's assumptions, or expectations change.



## BLUEGROUSE SEISMIC SOLUTIONS LTD.

### 2005 HIGHLIGHTS

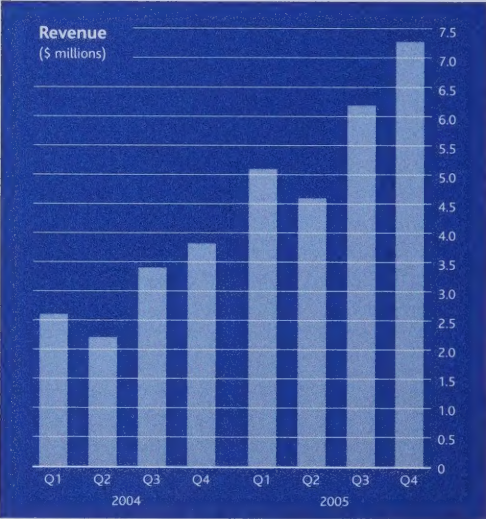
- Completed reverse takeover of Amusements International Inc. and commenced trading on the TSX Venture Exchange under the symbol BGH on July 26, 2005
- Purchased a total of 29,672 net kilometres of 2D seismic data and 2,639 net square kilometres of 3D seismic data
- Acquired 570 square kilometres of 3D seismic data through recording five multi-client surveys
- Raised \$19.4 million, \$14.4 million through two separate financings and a \$5 million term loan.

### FINANCIAL

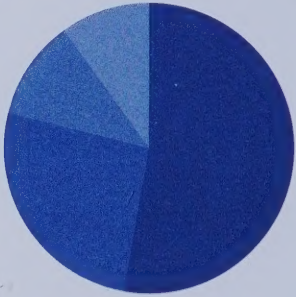
For the years ended December 31

(thousands of dollars except per share data)

	2005	2004
Revenue	23,259	11,906
Operating Expenses	16,035	10,514
Gross Margin	7,224	1,392
Amortization	880	75
Net Earnings	3,242	482
per share, Basic	0.54	0.48
Diluted	0.46	0.48
Funds from Operations	4,872	585
per share, Basic	0.81	0.58
Diluted	0.70	0.58
Working Capital Deficiency	2,228	1,304
Total Assets	38,237	6,556
Capital Expenditures	19,953	1,108
Long-term Debt	10,660	—
Shareholders' Equity	8,858	61
Weighted Average Shares Outstanding		
Basic	6,032,039	1,000,200
Diluted	6,974,264	1,000,200
Shares Outstanding at Period End	11,366,087	

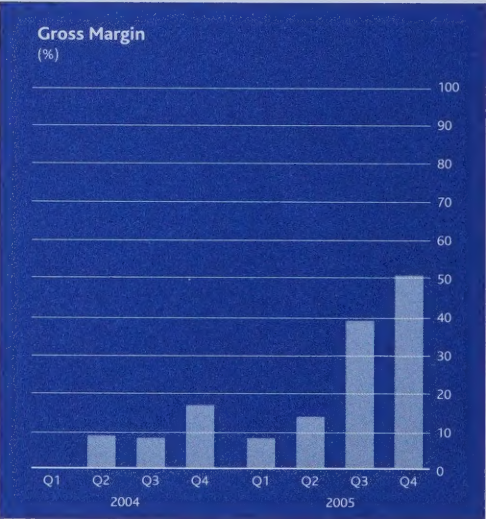


**Revenue Sources**

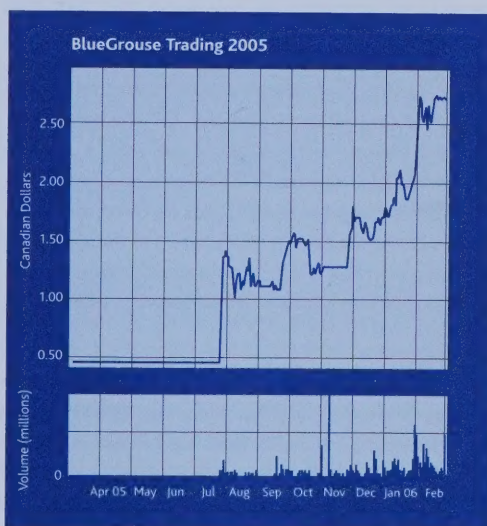
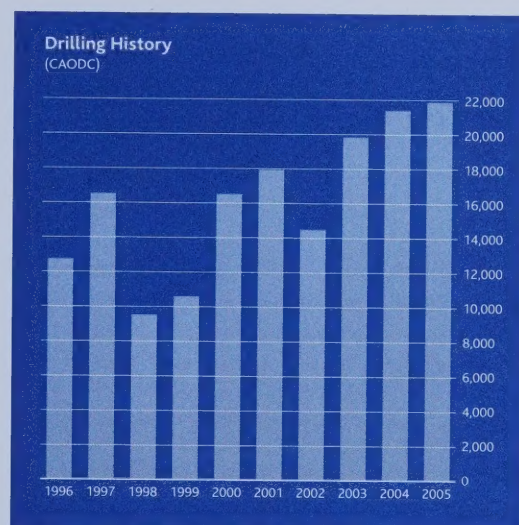
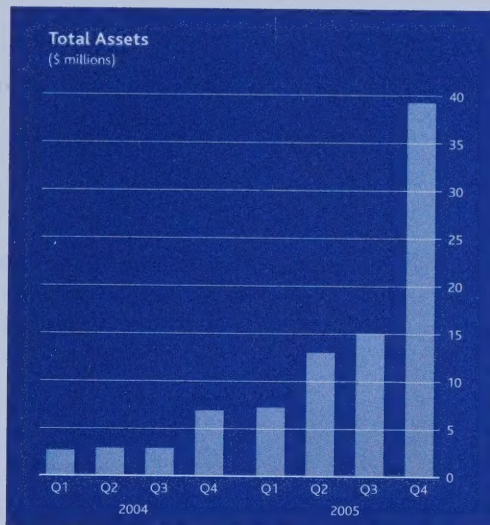


**2005**

- 53% Brokerage
- 26% Data Library
- 11% Data Management
- 7% Commissions
- 3% Other







**Trading Table**

High	\$ 1.50	\$ 1.90	\$ 1.90	\$ 2.90
Low	\$ 1.00	\$ 1.20	\$ 1.00	\$ 1.63
Volume	568,062	1,425,942	1,989,004	2,848,498
	Q3	Q4	2005	To Mar. 22 2006

## OPERATIONAL HIGHLIGHTS

Acquisition	Date	2D Seismic (net km)	3D Seismic (km <sup>2</sup> )
GSI	October 2004	3,868.82	34.50
CanJay	March 2005	211.30	
SilverTip (64%)	April 2005	560.11	593.00
Dominion	June 2005	181.80	411.50
Energy Trust	November 2005	23,750.00	1,600.00
DeWolfe	December 2005	1,100.00	
<b>Total</b>		<b>29,672.03</b>	<b>2,639.00</b>

Exploration and development drilling are very dependant on seismic, consequently, drilling activity is indicative of seismic demand. The graph above depicts drilling activity over the past 10 years.

## PRESIDENT'S LETTER TO THE SHAREHOLDERS

I am pleased to report on the financial and operational results of BlueGrouse over the past year, and in particular, since we became a publicly traded company on July 26, 2005. We enjoyed a very prosperous period which was marked by impressive revenue and earnings, substantial growth of our data library and significant multi-client survey activity.

While this is our first Annual Report as a public company, we are not new to the seismic industry. Indeed, BlueGrouse has been around since 2000. Our primary reason for going public was to access the significant capital required to purchase large, high-quality inventories, which, in turn, are needed to be competitive and grow the company. Within six months of going public, we became part of the TSX Venture Top 50, a considerable achievement indicative of our success in the capital markets.

The principals behind BlueGrouse have significant experience and expertise in the seismic industry. We built and ran an extremely successful seismic data company prior to founding BlueGrouse and we have the ability to take BlueGrouse beyond that. We understand our customers and their needs and have the ability to fulfill our promises to them.

Our mission statement sums up what BlueGrouse is all about. "Our aim is to be the seismic data provider of choice for the oil and gas industry. To achieve this, we will consistently provide the oil and gas industry with quick, reliable access to cost-effective, high-resolution seismic data."

### A Good Year for the Industry

The business climate in the oil and gas industry in 2005 was one of the best ever. Increasing demand for oil and natural gas coupled with diminishing supply capability created record commodity prices. The average price for West Texas Intermediate crude oil increased 35% in 2005 to US\$56.65 per barrel from US\$41.50 in 2004. In late August, oil prices broke the US\$70 barrier for the first time in history, before retreating to the US\$60 to US\$65 range for the rest of the year. Similarly, average NYMEX natural gas prices increased 45%, to US\$8.96 per MMBtu from US\$6.18 in the prior year.

Prices for Canadian light sweet crude at Edmonton rose 31% to C\$68.89 per barrel from C\$53.35 in 2004, and Canadian natural gas (NIT/AECO) increased 33% to C\$8.34 per gigajoule from C\$6.25.

A number of factors combined to create the robust commodity prices experienced in 2006. These include tension in the Middle East, especially the war in Iraq; the increasing energy requirements of emerging economies such as India and China, interruptions in supply due to damage to production platforms and land-based facilities; and the policy adopted by OPEC not to increase its production to compensate for production loss elsewhere.

In North America, the relatively smaller reserve volumes of newly found conventional reservoirs and the consequent accelerated natural decline of these reservoirs is creating greater interest and investment in non-conventional reserves such as coalbed methane and oil sands. However, due to the capital and infrastructure-intensive nature of these projects, significant production is still some years off and exploration for and development of conventional reserves continues at a record pace.

Drilling activity was positively affected by commodity prices. According to the Canadian Association of Oilwell Drilling Contractors, a total of 21,925 wells were drilled in 2005, a 1.5% increase over 2004. The number of oil wells drilled increased 9% while the number of gas wells decreased 1.5%.

The record drilling activity in 2005 led to a lack of exploration prospects as prospective locations were being drilled at a faster rate. This in turn created a greater demand for seismic data because exploration and development companies need to replenish drilling inventories to maintain growth.

Because of the high commodity prices, it has become expensive to acquire production, and this has resulted in a resurgence of the full-cycle exploration strategy and an industry shift toward growth through drilling rather than growth by acquisition. Drilling requires seismic data.



Merger and trust re-organizations have resulted in many new emerging exploration companies with recycled management teams returning to areas of past success. There are now approximately 1200 oil and gas companies in Western Canada.

#### **A Great Year for BlueGrouse**

Operationally, BlueGrouse exceeded its expectations. Through five major data purchases, we increased our 2D library to 29,672 net kilometres from 3,869 net kilometres and our 3D library to 2,639 net square kilometres from 34.5 net square kilometres.

Through our subsidiary, SilverTip Surveys Ltd., we were able to complete five major programs for a total of 570 net square kilometres. This represents a 380% increase over 2004. The surveys were shot in five different regions of Alberta and B.C., some of which were in very active areas in terms of land sales and bonuses paid.

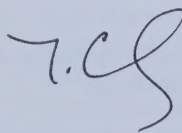
#### **Revenue**

Total revenue for the year ended December 31, 2005 increased by 95% to \$23.3 million compared to \$11.9 million for 2004. All categories of sales have increased significantly due to the increased level of operations in the company. The major increases came in data library sales which were \$6.0 million (26% of all 2005 sales) for the year end December 31, 2005 compared to \$666,000 for 2004 (6% of all 2004 sales). This \$5 million increase in data library sales primarily occurred in the last 6 months of 2005 and were the direct result of significant acquisitions of data libraries for \$2.8 million in July 2005 and \$16.2 million in November 2005. BlueGrouse has been building these data libraries since October 2004 and these significant additions have resulted in building a net data library asset base of \$21.7 million.

By year end 2005, BlueGrouse had built a data library of over 29,672 net kilometres of 2D seismic and 2,639 square kilometres of 3D seismic.

BlueGrouse raised \$19.4 million, \$14.4 million through two separate financings and a \$5 million term loan. A total of \$2.8 million went toward the Dominion data purchase and \$16.2 million to acquire the Energy Trust data purchase.

Despite our rapid growth over the past year, we have not had to significantly increase our staff size. This is primarily due to the talents and expertise of our employees. I would like to take this opportunity to thank them for their dedication to the task at hand and their loyalty to BlueGrouse. I would also like to thank our customers for their patronage and our shareholders for their continued support.



Todd Chuckry  
President and Chief Executive Officer  
BlueGrouse Seismic Solutions Ltd.

March 22, 2006

## OPERATIONS OVERVIEW

### Seismic Data

Seismic data is the primary tool oil and gas companies use to explore for new reserves, establish the extent of existing reserves, and to manage producing reservoirs. As such, it is in perpetual demand.

Seismic data is similar to an ultrasound in that it is acquired by sending a pulse of acoustic energy into the subsurface and recording the energy reflected back to the surface by the various geological boundaries using sophisticated sensors and recording instruments. Once recorded, the data is converted to digital format and stored on magnetic tape for subsequent processing. Interpretation of the processed data provides valuable information on the oil or natural gas potential of a particular area.

There are two main types of seismic:

- 2 Dimensional (2D) – a linear slice through the subsurface showing a particular geologic structure or trend
- 3 Dimensional (3D) – a block showing a broad or regional view used to develop an existing play or concept

Digital seismic data can be reprocessed over and over again and, because field acquisition is expensive, existing digital data has significant long-term value. Some of the factors contributing to this are:

- Land reverts back to the crown after five years if it has not been drilled.
- When companies farm out undrilled land, the seismic licence cannot be transferred.
- Crown land sales occur every two weeks in Alberta and every four in British Columbia.
- New seismic, drilling and production technology is expanding the number of identifiable economic pay zones. Areas that were once thought to have one to four pay zones may actually have as many as 12.
- Recycled management teams return to areas of past success and recognize value in data from prior experience.

- It is less costly to purchase library data than it is to shoot new seismic.
- Innovations in seismic data processing extend the economic life of older data.
- Increased access to data allows companies to accelerate exploration plans.

### BlueGrouse Business Lines

#### Seismic Data Library

BlueGrouse focuses on acquiring data libraries that:

- are regional in nature, with lines eight kilometres or more and totalling of more than 100 kilometres of data
- cover open crown land and land expiring in one to two years
- have a broad range of landowners – small, mid-cap and large
- have historically been passively marketed
- are in areas with multi-zone potential

BlueGrouse employs an experienced sales force and maintains a digital database using sophisticated mapping software to detail the location and ownership of all available seismic information. In much the same fashion as data brokerage, BlueGrouse personnel actively market our data library by providing comprehensive data coverage maps to our clients in areas of their operations. At the request of the client, the BlueGrouse representative will assemble a package of BlueGrouse library data for quality inspection. Following review of the dataset, the client will select those lines/surveys that will provide the exploration benefit needed to further their projects. BlueGrouse will reproduce the chosen data and complete all invoicing and licensing requirements for the data, with net proceeds retained by BlueGrouse.



Acquisition	Date	2D Seismic (net km)	3D Seismic (km2)
GSI	October 2004	3,868.82	34.50
CanJay	March 2005	211.30	
SilverTip (64%)	April 2005	560.11	593.00
Dominion	June 2005	181.80	411.50
Energy Trust	November 2005	23,750.00	1,600.00
DeWolfe	December 2005	1,100.00	
Total		29,672.03	2,639.00

#### • 2005 Revenue

Seismic Data Library revenue represents one of the highest margin components of our business model. Subject to any partner percentages inherited in our library acquisitions, library data transactions can result in as much as 100% of the individual data sale, net of commissions, being generated as revenue for BlueGrouse.

#### • Future Plans

There are a large number of libraries still available for purchase. Our goal over the next 12 to 18 months is to continue to increase our data library inventory. Also, we are currently working to purchase the partner interests that we inherited as a result of the Energy Trust seismic data acquisition.

Our outlook for 2006 is very positive. In 2005 the industry spent in excess of \$2.2 billion dollars on land sale purchases in Alberta and British Columbia. This is a key indicator to us that there will be increased exploration activity. Companies will look to us to help provide seismic information to assist in identifying exploration and development targets. Another indicator in 2005 was the record of more than 25,000 wells drilled in the Western sedimentary basin. As a result of those levels, companies will be focused on replenishing their prospect inventories and for that seismic plays a crucial roll as it is expected that 2006 will see some 26,000 wells drilled.

### Multi-client Surveys

- SilverTip creates, markets and operates seismic surveys. Once an area has been selected through in-house expertise, oil companies are approached to subscribe to seismic information prior to it being gathered in the field. When sufficient subscriptions have been procured, SilverTip hires sub-contractors to perform the variety of tasks involved in a survey. Through their subscriptions, the oil companies are purchasing a licence to explore with the seismic information and SilverTip retains the ownership right to continue to licence the data to interested parties.

The competitive advantages to subscribing for the oil companies are:

- the ability to evaluate large tracts of land with cost-effective seismic
- the ability to explore in an area on a confidential basis
- the opportunity to interpret new, high quality data with little competition (only the other subscribers) during a six-month exclusive period
- the ability to re-allocate personnel to other tasks that would otherwise be tied up supervising the acquisition of the seismic. The asset value of these surveys ranges from tens of thousands to millions of dollars, depending on the size and location of the project.

#### • 2005 Activity

The past year was a record one for our subsidiary, SilverTip Surveys. It completed five programs for a total of 570 square kilometres of 3D seismic. This represents a 380% increase over 2005. These programs were located in five different regions of Alberta and British Columbia, which allows us to access a large group of possible participants and not be reliant on any one group. It is important to note that some of the highest land sale bonuses paid were in areas where we recorded programs. BlueGrouse has 64% ownership in SilverTip; however, including our direct interest, BlueGrouse has an average 79% ownership in all SilverTip programs.

#### • Future Plans

The multi-client component of our business is expected to grow, as companies can rely on us to complete the programs we propose in a cost effective and timely manner. This allows them to plan their landsale and drilling activities around the time line we lay out. We see this business unit being a strong contributor to this increase of our 3-D seismic inventory.

## Seismic Data Brokerage

- Seismic data brokering involves licensing existing seismic data to exploration and production companies for use in exploring for and developing new reservoirs as well as maximizing output from producing reservoirs. These licences or "sales" permit the interested party to explore with the seismic information while ownership of the information remains with the vendor or a third party.

### • 2005 Activities

Data brokerage has been quite strong for the last number of years, as existing exploration companies try to capitalize on the strength of commodity prices, and new companies look toward seismic information as a source of competitive advantage and a tool to reduce risk. These factors result in a growing demand for data and a growing customer base. BlueGrouse has seen its customer base expand 32% from 2004 to 2005, and all indications are that this trend will continue. A correlating factor is that as exploration prospects become more valuable, the competitive value of data ownership increases. Many exploration companies restrict the availability of their data thus forcing exploration companies to turn to data library providers like BlueGrouse to realize their data needs. In addition, as finding costs continue to increase, exploration companies must turn to data library providers to maximize their seismic budgets by purchasing existing data or participating in multi-client opportunities as opposed to "shooting" the data themselves.

### • 2005 Revenue

Data brokerage revenue is realized when an internal employee or consultant facilitates a transaction of third party data between two exploration companies. This transaction results in as much as 10% of the data sale being generated as a commission. Revenues in 2005 increased 95% over 2004 as a result of the increase in activity, purchase of seismic data libraries and the hiring of key established, marketing personnel.

### • Future Plans

As market conditions warrant, we expect to expand our marketing team to fully service the needs of our clients and be able to provide innovative solutions to their exploration goals.

In our quest to become the seismic data provider of choice, we are focusing on not just brokering data to a stable of clients, but to be an integral part of the team supplying the information they need, be it through data brokerage, new seismic shoots, farm in opportunities or partnership introductions.

## Seismic Data Management

- BlueGrouse manages seismic data on behalf of owners of seismic data libraries and oil companies in exchange for a commission on any resulting licenses or sales. Some oil companies prefer to outsource the management of their proprietary seismic information so they can focus their energies on the development of oil and gas reserves. In managing a company's seismic data, upon receiving permission to do so, BlueGrouse provides a sample print of the applicable seismic information to an interested party for inspection. If a sale results, BlueGrouse ensures that all necessary copies of the information are correctly prepared by the various suppliers and then delivered to the purchaser. BlueGrouse invoices the purchaser and credits the vendor. It is also responsible for collecting and dispersing the monies from the transaction and for ensuring that appropriate license agreements are prepared for each transaction. In the case of the seismic data libraries, permission to release the data for inspection is not necessary as this information is generally available for licence.

### • Future Plans

As our data library expands, the demands on our data management department will expand as well. It is our intention to make data management a pro-active department. Our data managers will seek out third party brokers, and empower them to represent our database to their clients. When the broker is empowered they are better able to meet their clients' needs, and the end result is increased data library sales.

BlueGrouse is also currently reviewing actively managing other companies' seismic data libraries whereby we market and promote their data alongside ours and generate commissions based on the success of those efforts. This opportunity will be studied keeping in mind that any efforts must not take away from the marketing of our own data library and must be complimentary in terms of data location, business philosophy and availability.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Twelve Months Ended December 31, 2005*

The following Management's Discussion and Analysis ("MD&A") for BlueGrouse Seismic Solutions Ltd. ("BlueGrouse" or "the Company") has been prepared, taking into consideration information available to March 22, 2006, and is supplemental to the consolidated financial statements and related notes contained in this annual report for the year ended December 31, 2005 and in the Company's Annual Financial Statements. The consolidated financial statements for the year ended December 31, 2005 were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This MD&A focuses on key statistics from the consolidated financial statements, and pertains to known risks and uncertainties relating to the seismic industry, and the software and related services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions, as well as oil and natural gas prices, industry activity levels, and the ability of oil and gas companies to raise capital. Additionally, other circumstances may or may not occur which could impact the licensing of seismic data and sales of the other services supplied by the Company.

The Company's continuous disclosure documents provide discussion and analysis of "funds from operations" and "funds from operations per share". This financial measures do not have standard definitions prescribed by GAAP in Canada and therefore they may not be comparable to similar measures disclosed by other companies. The Company has included this non-GAAP financial measure because they are used by management, investors, analysts and others as measures of the Company's financial performance. The Company's definition of funds from operations is cash flow from operations as prescribed by Canadian GAAP, but excluding the impact of changes in non-cash working capital. See the Statement of Cash Flows in the consolidated financial statements for the year ended December 31, 2005. Funds from operations per share is defined as funds from operations divided by the weighted average number of shares outstanding for the period.

Certain information contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time that such statements are made. BlueGrouse does not update forward-looking statements should circumstances change or management's assumptions, expectations or estimates change.

### **2005 in Review**

Seismic data acquisition and sales activity are primarily driven by oil and gas exploration, development and production drilling, which in turn is driven by commodity prices. In the past, OPEC has increased production to keep prices lower, but it has not done so recently, leading some industry watchers to believe it has lost its ability to do so. World energy demand, more than ever, dictates commodity prices.

In 2005, availability of supply was further compounded by the war in Iraq and other political tensions in the Middle East, and greater than usual hurricane activity in the Gulf of Mexico that damaged both offshore production platforms and onshore facilities.

### **Overview**

On April 1, 2005, the Company acquired a 64% interest in SilverTip Surveys Ltd. ("SilverTip"), a company related due to common management. SilverTip generates revenue from the participation in and sale of 2D and 3D multi-client seismic surveys. SilverTip has conducted several programs for its customers and currently owns, or has a revenue interest in, over 485 square km of 3D seismic information and 500 km of 2D seismic information. The purchase consideration consisted of 2,560 shares. As there was no substantive change in control of SilverTip, the acquisition has been accounted for as a related party transaction, not in the normal course of business. The shares issued have therefore been valued at the carrying value of the net assets of SilverTip acquired, (note 2 to the consolidated financial statements)

On July 14, 2005, the TSX Venture Exchange approved the Company's purchase by issuance of common shares, of all of the issued and outstanding shares of Blue Grouse Seismic Solutions Ltd. ("Old Blue Grouse") (note 1 to the consolidated financial statements). The Company amalgamated with Old Blue Grouse and changed its name to BlueGrouse Seismic Solutions Ltd. (BlueGrouse) at this date. Old Blue Grouse was a private company engaged in providing Seismic Data primarily to the oil and gas industry. The transaction has been accounted for as a reverse takeover and therefore these financial statements are a continuation of Old Blue Grouse. There are four primary facets to BlueGrouse's business: (i) Data library ownership through acquisition of existing inventories; (ii) the brokering and licensing of existing seismic information between vendors and interested parties; (iii) the management of existing seismic information for the purposes of brokerage sales; and (iv) the creation of new seismic information inventories through the recording of surveys.

On November 21, 2005 BlueGrouse closed a seismic data library acquisition of approximately 23,750 kilometres net of 2D and 1,600 square kilometres net of 3D seismic data. The acquisition was funded in part with the proceeds of an offering, pursuant to which 686,240 Units were issued at a price of \$1.25 per Unit and \$8,542,000 principal amount of convertible debentures were issued for aggregate gross proceeds of \$9,399,800. BlueGrouse also entered into a letter agreement with a financial institution to provide \$5,000,000 of bridge financing to assist BlueGrouse with the aforementioned seismic acquisition. (note 11 to the consolidated financial statements)

Each Debenture bears interest at a rate of 10% per annum and is convertible, in whole or in part, into Common Shares at a conversion price of \$1.40 per Common Share ("the Conversion Price") at any time on or before November 21, 2008 ("the Maturity Date"). At the Maturity Date, the holders of the Debentures shall have the option of either converting their Debentures into Common Shares at the Conversion Price or receiving the cash value of the principal amount of the Debentures, plus any accrued and unpaid interest.

### Net Earnings

Net earnings for the year ended December 31, 2005 were \$3.2 million (\$0.54 per share basic), a 735% increase compared to \$482,283 (\$0.48 per share basic) for 2004. Funds from operations for 2005 was \$4.9 million (\$0.81 per share), an 833% increase over the \$584,493 (\$0.58 per share basic) generated in 2004. Net earnings for the 3 months ended December 31, 2005 were \$1.5 million (\$0.17 per share basic), a 380% increase compared to \$494,690 (\$0.48 per share basic) for 2004. These per share figures are based on quarterly weighted average diluted shares outstanding. The weighted average basic shares outstanding as at December 31, 2005 were 6,032,039 and as at December 31, 2004 were 1,000,200.

### Selected Consolidated Financial Information

The following tables set forth certain selected annual financial information of BlueGrouse for the years ended December 31, 2005, 2004 and 2003. (Earnings per share are adjusted to reflect the amalgamation at July 14, 2005 of Blue Grouse described in note 1 to the consolidated financial statements)

#### Annual Data

	Year Ended December 31, 2005 (audited)	Year Ended December 31, 2004 (audited)	Year Ended December 31, 2003 (audited)
Gross Revenue	\$ 23,258,843	\$ 11,905,780	\$ 2,547,816
Net Earnings (Loss)	3,242,137	482,283	(422,297)
Per share, basic	\$ 0.54	\$ 0.48	\$ (0.42)
Per share, diluted	\$ 0.46	\$ 0.48	\$ (0.42)
Total Assets	38,237,505	6,555,527	1,121,270
Long Term Debt	10,660,268	10,831	19,341
Cash Dividends Declared	Nil	Nil	Nil



**Quarterly Data**

	2005	2005	2005	2005	2004	2004	2004	2004
(Unaudited)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Gross Revenue	\$ 7,371,101	\$ 6,196,923	\$ 4,616,273	\$ 5,074,546	\$ 3,801,371	\$ 3,372,623	\$ 2,158,449	\$ 2,573,337
Net Earnings (Loss)	1,529,319	1,657,112	13,400	42,306	494,690	75,293	(115,857)	28,157
per share, basic	0.14	0.18	0.00	0.03	0.49	0.08	(0.12)	0.03
per share, diluted	0.10	0.13	0.00	0.03	0.49	0.08	(0.12)	0.03
Total Assets	38,237,505	14,261,346	12,356,904	6,941,624	6,555,527	2,835,106	2,779,611	2,572,664
Long Term Debt	10,660,268	2,892	2,977	6,825	10,831	14,682	18,387	22,235
Cash Dividends Declared	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Revenue**

Total revenue for the year ended December 31, 2005 increased by 95% to \$23.3 million compared to \$11.9 million for 2004. Total revenue for the 3 months ended December 31, 2005 increased by 94% to \$7.4 compared to \$3.8 million for 2004. All categories of sales have increased significantly due to the increased level of operations in the company. The major increases came in data library sales which were \$6.0 million (26% of all 2005 sales) for the year end December 31, 2005 compared to \$666,000 for 2004 (6% of all 2004 sales). This \$5 million increase in data library sales primarily occurred in the last 6 months of 2005 and were the direct result of significant acquisitions of data libraries for \$2.8 million in July 2005 and \$16.2 million in November 2005. BlueGrouse has been building these data libraries since October 2004 and these significant additions have resulted in building a net data library asset base of \$21.7 million.

By year end 2005, BlueGrouse had built a data library of over 28,347 kilometres of 2D seismic and 2,356 square kilometres of 3D seismic.

The revenue components are detailed in the following table:

**BlueGrouse Revenue Analysis**

For year ended December 31, 2005 ('000's)	2005	% of Total Revenue	2004	% of Total Revenue
Brokerage Sales	\$ 12,322	53	\$ 8,416	70
Data Management Sales	2,661	11	1,413	12
Commissions	1,627	7	1,089	9
Data Library Sales	6,024	26	666	6
Corporate and Other	625	3	322	3
Total	\$ 23,259	100	\$ 11,906	100

**Operating Expenses**

Cost of sales expenses were \$16.0 million for the year ended December 31, 2005 compared to \$10.5 million during the same period in 2004. These expenses include costs directly related to the brokerage and commission sales and will increase in proportion to these sales.

Brokerage and commission sales together are \$14.0 million in 2005 which account for 77% of the cost of sales and they are \$9.5 million in 2004 which account for 80% of the cost of sales in that year. The balance of the cost of sales is primarily reproduction costs and commissions paid to Brokers.

### Gross Margin

The gross margin for the year ended December 31, 2005 is high at \$7.2 million (31% of sales) due to the high percentage of data library sales (26% of sales). For 2004 the gross margin was \$1.4 million (12% of sales) and the data library sales during 2004 were only 6% of sales.

### General and Administrative Expenses

General and Administrative Expenses ("G&A") were \$3.7 million in the year ended December 31, 2005, compared to only \$890,445 in 2004. The main components of this increase are the increases in amortization, salaries and benefits, stock based compensation and interest for the year.

### Amortization

BlueGrouse's amortization expense has not historically been a large expense item, but with the addition of seismic data libraries beginning in October 2004, this expense has increased significantly. These data libraries are amortized on a straight-line basis over four years. The amortization expense for the year ended December 31, 2005 has increased to \$880,097 compared to \$95,024 in 2004.

### Salaries and Benefits

Salaries have increased as a result of the tremendous growth in the Company over the last two years. The company had only a few employees at the beginning of 2004 and grew significantly throughout the year. Then in 2005, BlueGrouse as a public company (effective July 14, 2005) was able to offer compensation packages consisting of salaries, bonuses, stock options and performance warrants to its commissioned and consulting staff. This conversion reduced commission and consulting fees and attracted the individuals as salaried employees and officers. The number of employees is now 18 compared to 10 in September 2004. As a result, salaries and benefits increased to \$1.2 million in 2005 compared to \$238,000 in 2004.

### Stock Based Compensation

Stock based compensation of \$430,923 has been recognized during 2005, in respect of stock options and performance warrants issued to directors, officers and employees since July 25, 2005 (see note 12 to the Consolidated Financial Statements).

### Interest

Interest on bank loans increased to \$132,390 in 2005 compared to only \$10,199 in 2004. This increase was a result of several short term loans arranged with the bank to finance seismic data library acquisitions during the year. The loans varied in amounts from \$1 million to \$3 million, with interest rates at prime plus 3% and were all retired during the year.

During 2005, interest of \$59,178 was paid on a long-term loan of \$5 million (\$2.5 million current portion) with an interest rate of 12%, a gross overriding royalty of 2% on the sales revenue received on certain seismic data library assets and matures on January 31, 2007.

Also during 2005, interest of \$93,611 was paid on convertible debentures outstanding during the year, which bear interest at 10% and mature on November 21, 2008.

### Income Taxes

Unrecognized income tax losses were acquired on the reverse takeover of Amusement International Inc. on July 14, 2005 (see note 1 to the consolidated financial statements). No value was attributed to these losses at that time as there was no assurance that the company would be able to generate income to against which to apply the losses. The benefit of these income tax losses carry forwards has since been utilized through the earnings generated to December 31, 2005 (see note 10 to the consolidated financial statements).

### Seismic Data Library

BlueGrouse invested \$22.3 million to acquire new seismic data in 2005. A total of \$20.8 million was incurred to acquire new or existing data and an additional \$1.5 million was acquired in SilverTip Surveys (a 64% subsidiary) relating to participation surveys. A total of 24,573 net kilometres of 2D data and 2,322 net square kilometres of 3D data were acquired during the year. By comparison, BlueGrouse spent \$1.1 million on additions to its seismic data library in 2004, for a total of 3,774 net kilometres of 2D data and 35 net square kilometres of 3D data.



### Critical Accounting Estimates

The capital cost of the seismic data library is amortized on a straight-line basis over four years. These seismic data libraries are a result of a purchase of existing data or through SilverTip in participation surveys. BlueGrouse markets its seismic data libraries and sets a carry value to amortize over four years. BlueGrouse recognize that over these four years, the estimated future sales will be sufficient to recover the carrying value of the asset although the seismic data libraries will continue to generate sales beyond those periods.

### Share Capital Summary

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

BlueGrouse issued significant shares in conjunction with the acquisition of SilverTip Surveys Ltd. on April 1, 2005; the amalgamation with Amusements International Ltd. on July 14, 2005 and the private placement on November 21, 2005.

The following table provides details of the company's share capital for the years ended December 31, 2005 and December 31, 2004 and the four quarters of 2005:

	December 31 2005	Fourth Quarter 2005	Third Quarter 2005	Second Quarter 2005	First Quarter 2005	December 31 2004 <sup>(1)</sup>
Weighted average common shares outstanding						
Basic	6,032,039	10,961,003	9,389,450	2,536,200	1,000,200	1,000,200
Diluted	6,974,264	14,934,791	13,239,287	2,536,200	1,000,200	1,000,200
Shares outstanding at end of period	11,366,087	11,366,087	10,635,495	2,536,200	1,000,200	1,000,200
Shares outstanding at March 22, 2006	11,979,084					

(1) Restated for the July 14, 2005 amalgamation, each old Blue Grouse shareholder received 600 common shares for each old Blue Grouse share

At December 31, 2005 there were 248,609 options available for additional granting of stock options. There were 888,000 stock options outstanding at exercise prices ranging from \$0.75 to \$1.65.

At March 22, 2006 there were 281,175 options available for additional granting of stock options. There were 916,733 stock options outstanding at exercise prices ranging from \$0.75 to \$2.68.

At December 31, 2005 there were 2,800,000 performance warrants outstanding at an exercise price of \$0.75. These performance warrants were 50% vested as at December 31, 2005.

At March 22, 2006 there were 2,787,500 performance warrants outstanding at an exercise price of \$0.75. These performance warrants were 100% vested as at March 22, 2006.

At December 31, 2005 there were 1,664,157 warrants outstanding at an exercise price of \$0.75 to \$1.80. (see note 12(d) to the consolidated financial statements)

At March 22, 2006 there were 1,234,927 warrants outstanding at an exercise price of \$0.75 to \$1.80.

At December 31, 2005 and March 22, 2006 there were no preferred shares outstanding.

### **Risk Factors**

The principal risk factors that may materially affect BlueGrouse include the following:

#### **Demand for Seismic Data and Services**

The demand for seismic data and services depends primarily upon the level of exploration and development activity by oil and natural gas companies in Western Canada. These activity levels are directly affected by fluctuations in world energy prices, supply and demand for oil and natural gas, and to a lesser extent government regulation including regulation of environmental matters, all of which are beyond the control of BlueGrouse.

#### **Participation Surveys**

Although SilverTip does what it considers to be a thorough analysis of factors affecting the probability of future sales of its participation seismic surveys, and obtains pre-sale commitments for a majority of the estimated costs of the participation seismic surveys, there can be no certainty of future demand for these surveys by the oil and gas industry.

#### **Competition in the Seismic Industry**

The geophysical service industry in which BlueGrouse and SilverTip operates is highly competitive. BlueGrouse competes with other more established companies which have greater financial, marketing and other resources, and certain of which are large international geophysical services companies that offer a wider array of geophysical services to their clients than BlueGrouse does. BlueGrouse also competes with other companies that acquire, market and license seismic data, that maintain their own seismic data libraries, and that compete against BlueGrouse in licensing seismic data to its customers.

#### **Availability of Capital for our Seismic Customers**

SilverTip customers include private oil and gas companies that rely on private equity to fund their exploration and development activities, and junior public companies that rely on public equity to fund their exploration and development activities. Significant changes in the availability of capital to such customers could have a material adverse effect on their ability to purchase seismic data and services.

#### **Effect of Seasons and Weather on Seismic Survey Programs**

Seismic surveys are usually completed in the winter season when frozen ground conditions permit the movement and operation of heavy equipment in the northeast areas of Alberta and British Columbia. If an unseasonably late or warm winter delays or prevents sufficient freezing to occur, or if an early spring results in an early thaw, SilverTip may not be able to complete its winter seismic survey programs on time and within budget.

#### **Dependence upon Seismic Contractors**

SilverTip depends upon qualified seismic acquisition contractors to complete its seismic surveys on time and within budget. SilverTip endeavors to enter into Master Service Agreements and to establish relationships with its key contractors.

#### **Key Personnel**

BlueGrouse depends upon certain key management, operations and marketing personnel for the success of its seismic acquisition, marketing and licensing business. BlueGrouse endeavors to obtain written employment agreements with such personnel containing confidentiality and non-competition provisions where appropriate.

#### **Liquidity, Capital Resources**

The working capital deficiency position of BlueGrouse at December 31, 2005 is at \$2.2 million compared to \$1.3 million as at December 31, 2004. This 2005 deficiency includes \$2.5 million of a current portion of a financing loan to acquire a seismic data library. This loan is expected to be repaid from working capital in 2006.

BlueGrouse's data library assets are at \$21.7 million at December 31, 2005 as compared to \$1.0 million as at December 31, 2004 and the shareholders' equity at December 31, 2005 is \$8.9 million compared to \$60,525 as at December 31, 2004.



**Related Transactions**

During the year ended December 31, 2005 BlueGrouse acquired a 64% interest in SilverTip (note 2 to the consolidated financial statements) with Shareholders loans outstanding of \$339,400. These shareholders loans are non-interest bearing and have no fixed terms of repayment. At December 31, 2005 the consolidated balance due to shareholders was \$660,062. (note 8 to the consolidated financial statements)

During the year ended December 31, 2005 BlueGrouse paid \$60,000 and received \$nil from SilverTip.

During the year ended December 31, 2005, commissions of \$318,940 (2004 – \$261,105) were paid to two companies controlled by officers of the Company, and as at December 31, 2005, \$nil (2004 – \$88,453) is payable to these related companies. The commissions payable in 2004 have been included in accounts payable.

During the year ended December 31, 2005, the Company paid \$nil (2004 – \$nil) and received \$nil (2004 – \$135,000) from a company controlled by common management. The advance is non interest bearing and has no fixed terms of repayment. At December 31, 2005, the balance due to the related party was \$182,088 (2004 – \$182,088).

**Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management in order to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the the end of the period covered by the annual filings, that the Company's disclosure controls and procedures, as of the end of such period, are effective and provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that, while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

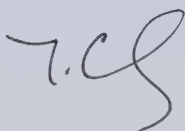
The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles ("GAAP") appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis ("MD&A"). The MD&A is based upon the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2005 and December 31, 2004.

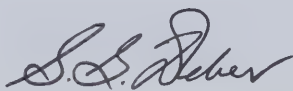
Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

Hudson & Company LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Company's most recent annual general and special meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors, comprises three directors who are not employees of the Company, and who have discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Todd A. Chuckry  
President & Chief Executive Officer



Stan G. Weber  
Chief Financial Officer

March 22, 2006



## AUDITORS' REPORT

To: The Shareholders of **BlueGrouse Seismic Solutions Ltd.**

We have audited the consolidated balance sheets of **BlueGrouse Seismic Solutions Ltd.** (Formerly Amusements International Inc.) (the "Company") as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

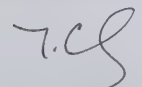


HUDSON & COMPANY LLP  
Chartered Accountants  
Calgary, Alberta  
March 17, 2006

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31	2005	2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 836,601	\$ 607,100
Accounts receivable	15,131,267	4,564,490
Prepaid expenses	58,235	1,262
	<b>16,026,103</b>	<b>5,172,852</b>
DUE FROM RELATED PARTY (note 4)	—	182,088
CAPITAL ASSETS (note 5)	59,064	62,040
DATA LIBRARY (note 6)	21,664,866	1,032,500
DEFERRED FINANCING COSTS (note 3)	487,472	106,047
	<b>\$ 38,237,505</b>	<b>\$ 6,555,527</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 13,975,828	\$ 4,876,140
Income taxes payable	30,792	12,006
Bank loan (note 7)	—	1,000,000
Deferred revenue	1,087,449	—
Due to shareholders (note 8)	660,062	599,670
Current portion of loan payable (note 9)	2,500,000	—
	<b>18,254,131</b>	<b>6,487,816</b>
LOAN PAYABLE (note 9)	2,500,000	—
FUTURE INCOME TAXES (note 10)	201,580	7,186
CONVERTIBLE DEBENTURES (note 11)	8,160,268	—
	<b>29,115,979</b>	<b>6,495,002</b>
NON CONTROLLING INTEREST	263,216	—
	<b>29,379,195</b>	<b>6,495,002</b>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (note 12)	4,765,059	1,667
CONTRIBUTED SURPLUS (note 13)	812,655	—
RETAINED EARNINGS	3,280,596	58,858
	<b>8,858,310</b>	<b>60,525</b>
	<b>\$ 38,237,505</b>	<b>\$ 6,555,527</b>

Approved on behalf of the Board



Todd A. Chuckry  
Director



Kris Matthews  
Director



## CONSOLIDATED STATEMENTS OF OPERATIONS & RETAINED EARNINGS

YEARS ENDED DECEMBER 31	2005	2004
REVENUE	\$ 23,258,843	\$ 11,905,780
COST OF SALES	16,034,850	10,513,860
GROSS MARGIN	7,223,993	1,391,920
EXPENSES		
Salaries and benefits	1,233,709	238,647
Amortization of data library	857,003	75,500
Stock-based compensation	430,923	—
Advertising and promotion	181,387	78,795
Rent	175,859	122,797
Interest on long term debt	132,390	10,199
Materials	124,532	109,309
Interest and bank charges	107,634	21,964
Professional fees	100,087	34,558
Subcontract	79,936	69,203
Office	44,805	23,351
Telephone	37,502	19,437
Director's fees	37,000	—
Postage and courier	35,267	22,287
Financing costs	23,874	—
Amortization	23,094	19,524
Travel	13,594	17,776
Insurance	7,764	2,405
Business taxes	7,204	16,100
Subscriptions, permits and licenses	2,560	8,593
	3,656,124	890,445
EARNINGS BEFORE INCOME TAXES	3,567,869	501,475
INCOME TAXES		
Current	30,436	12,006
Future	201,580	7,186
	232,016	19,192
Non controlling interest	93,716	—
NET EARNINGS	\$ 3,242,137	\$ 482,283
BASIC EARNINGS PER SHARE (note 14)	\$ 0.54	\$ 0.48
DILUTED EARNINGS PER SHARE (note 14)	\$ 0.46	\$ 0.48
RETAINED EARNINGS (DEFICIT), beginning of year	\$ 58,858	\$ (423,425)
Net earnings	3,242,137	482,283
	3,300,995	58,858
Dividends	(20,399)	—
RETAINED EARNINGS, end of year	\$ 3,280,596	\$ 58,858

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 3,242,137	\$ 482,283
Items not affecting cash		
Amortization of intangible assets	23,094	19,524
Amortization of data libraries	857,003	75,500
Future income taxes	201,580	7,186
Non controlling interest	93,716	—
Stock-based compensation expense	430,923	—
Amortization of deferred financing costs	23,874	—
	4,872,327	584,493
Changes in non cash working capital items		
Accounts receivable	(8,429,950)	(3,902,143)
Prepaid expenses	(56,973)	(307)
Accounts payable and accrued liabilities	6,682,018	3,635,112
Income taxes	(71,508)	12,006
Future income taxes	(7,186)	—
Deferred revenue	87,449	—
	3,076,177	329,161
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash acquired on acquisition	479,327	—
Purchase of capital assets	(20,118)	(28,212)
Purchase of data library	(19,787,324)	(1,108,000)
	(19,328,115)	(1,136,212)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from (to) shareholder	(279,010)	303,300
Advances from (to) related party	182,088	(135,000)
Bank loan	(1,000,000)	1,000,000
Increase in loan payable	5,000,000	—
Deferred financing costs	(405,299)	(106,046)
Repayment of capital lease obligation	—	(5,630)
Convertible debentures	8,542,000	—
Issuance of share capital	4,462,059	—
Dividends	(20,399)	—
	16,481,439	1,056,624
<b>CHANGE IN CASH POSITION</b>	<b>229,501</b>	<b>249,573</b>
CASH, beginning of year	607,100	357,527
CASH, end of year	\$ 836,601	\$ 607,100
<b>OTHER INFORMATION</b>		
Interest paid	\$ 132,390	\$ 10,199
Income taxes paid	12,006	—



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 and 2004

### 1. NATURE OF OPERATIONS

On July 14, 2005, the TSX Venture Exchange approved the Company's purchase by issuance of common shares, of all of the issued and outstanding shares of Blue Grouse Seismic Solutions Ltd. (Note 3). The Company amalgamated with Blue Grouse Seismic Solutions Ltd. (the "Amalgamation"), and changed its name to BlueGrouse Seismic Solutions Ltd. Blue Grouse Seismic Solutions Ltd. was a private company engaged in providing seismic data primarily to the oil and gas industry. There are four primary facets to BlueGrouse's business: (i) Data library ownership through acquisition of existing inventories; (ii) the brokering and licensing of existing seismic information between vendors and interested parties; (iii) the management of existing seismic information for the purposes of brokerage sales; and (iv) the creation of new seismic information inventories through the recording of surveys. The transaction has been accounted for as a reverse takeover and therefore these financial statements are a continuation of those of Blue Grouse Seismic Solutions Ltd.

### 2. BUSINESS COMBINATIONS

Effective April 1, 2005, the Company acquired a 64% interest in a company, Silvertip Surveys Ltd. ("Silvertip"), a company related due to common management. Silvertip generates revenue from the participation in and sale of two dimensional and three dimensional multi client seismic surveys. Silvertip has conducted several programs for its customers and currently owns, or has a revenue interest in, over 485 square kilometres of three dimensional seismic information and 500 kilometres of two dimensional seismic information. The purchase consideration consisted of 2,560 shares. As there was no substantive change in control of Silvertip, the acquisition has been accounted for as a related party transaction, not in the normal course of business. The shares issued have therefore been valued at the carrying value of the net assets of Silvertip acquired.

The acquisition has been accounted for using the purchase method, with results of operations included from the date of acquisition. The purchase equation is as follows:

Book value of net assets acquired:

Cash	\$ 306,769
Accounts receivable	1,367,569
Seismic data	449,309
Accounts payable and accrued liabilities	(1,547,309)
Income taxes payable	(57,788)
Due to shareholders	(217,217)
	<hr/>
	\$ 301,333

Consideration given:

2,560 Common shares of Old Blue Grouse	<hr/>
	\$ 301,333

Pursuant to the Amalgamation (Note 1), former holders of Class A common shares ("Amusement Shares") of Amusements International Ltd. received, for each outstanding Amusements Share held by them, 0.06666667 of a common share (a "Common Share") of the new BlueGrouse Seismic Solutions Ltd. ("New BlueGrouse"); and former holders of commons shares ("Old Blue Grouse Shares") of the old Blue Grouse Seismic Solutions Ltd. ("Old Blue Grouse") received, for each Old Blue Grouse share held by them, 600 Common Shares. In addition, former holders of options ("Amusement Options") to acquire Amusements Shares were granted an aggregate of 172,333 warrants ("Warrants") to purchase Common Shares at a price of \$1.50 per Common Share. These Warrants are exercisable for a period of time that corresponds to the remaining term on the previously granted Amusement Options.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

#### Consolidation

The consolidated financial statements include the accounts of the Company and its 64% owned subsidiary, Silvertip Surveys Ltd. All material intercompany transactions and balances have been eliminated.

The subsidiary was purchased on April 1, 2005, and only the operations from this date to December 31, 2005 have been included in these consolidated financial statements.

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts receivable, capital assets, data library, accounts payable and accrued liabilities and income taxes.

#### Cash

Cash consists of balances with financial institutions.

#### Capital assets

Capital assets are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates and methods are as follows:

Furniture and fixtures	20 %	Declining balance
Computer equipment	30 %	Declining balance
Computer software	100 %	Declining balance

#### Amortization of seismic data library

The capital costs of the data library are amortized on a straight line basis over four years. The Company reviews, at least annually, the carrying value of the data library to assess whether there has been any impairment in value. Additional amortization is recorded if it is determined that estimated future sales will not be sufficient to recover the carrying value of the asset.

#### Deferred financing costs

Deferred financing costs consist of professional fees incurred in respect of the amalgamation with Amusements International Ltd. and the issuance of the Convertible Debentures issued to fund the seismic data library acquisition on November 21, 2005. These costs will be amortized over the period of the financings.

#### Joint ventures

A portion of the Company's seismic activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

#### Revenue recognition

Revenue from seismic data library sales and third party seismic data licensing agreements is recognized when the seismic data information services are provided to interested parties.



Brokerage sales and purchases are recognized at the full sale and purchase price of the seismic data. The excess of brokerage sales over brokerage purchases represents commissions on sale.

The Company, as operator through SilverTip undertakes seismic jointly with others (participation surveys). Seismic data is recorded as a capital asset reflecting only the Company's proportionate cost in participation surveys (liability for third party cost and amounts due from joint seismic partners) are shown as an investing activity on the statement of cash flows. Revenue from these seismic data licensing agreements is recognized when the seismic data information services are provided to interested parties after an exclusive period.

#### **Stock-based compensation**

The Company has a stock-based compensation plan, which is described in note 12(c). Awards of options under this plan are expensed based on the fair value of the options at the grant date. The amount is credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

#### **Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

#### **Earnings per share**

The calculation of basic earnings per common share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

#### **4. RELATED PARTY TRANSACTION**

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties as follows:

- (a) During the year ended December 31, 2005, the Company paid \$nil (2004 – \$nil) and received \$nil (2004 – \$135,000) from a company controlled by common management. The advance is non interest bearing and has no fixed terms of repayment. At December 31, 2005, the balance due to the related party was \$182,088 (2004 – \$182,088).
- (b) During the year ended December 31, 2005, a company with common management provided seismic data services to the Company in the amount of \$nil (2004 – \$882,857) and the Company provided seismic data services to this company with common management of \$nil (2004 – \$283,270). These amounts are included in accounts payable and accounts receivable.
- (c) During the year ended December 31, 2005, commissions of \$318,940 (2004 – \$261,105) were paid to two companies controlled by officers of the Company, and as at December 31, 2005, \$nil (2004 – \$88,453) is payable to these related companies. The commissions payable in 2004 have been included in accounts payable.
- (d) Included in accounts payable is an amount of \$nil (2004 – \$38,239) due to a director for expenses paid on behalf of the Company.

**5. CAPITAL ASSETS**

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Furniture and fixtures	\$ 62,301	\$ 22,407	\$ 39,894	\$ 53,158	\$ 14,148	\$ 39,010
Computer equipment	32,637	15,776	16,861	29,472	9,227	20,245
Computer software	10,966	8,657	2,309	7,322	4,537	2,785
	\$ 105,904	\$ 46,840	\$ 59,064	\$ 89,952	\$ 27,912	\$ 62,040

**6. DATA LIBRARY**

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Seismic data	\$ 22,601,536	\$ 936,670	\$ 21,664,866	\$ 1,108,000	\$ 75,500	\$ 1,032,500

**7. BANK LOAN**

The bank loan is a non revolving facility, obtained to purchase a seismic data library, bearing interest at prime plus 3%. The loan is secured by a general security agreement. As the loan is due on demand, it has been classified as a current liability.

	2005	2004
Bank loan	\$ —	\$ 1,000,000

**8. DUE FROM (TO) SHAREHOLDERS**

The amount due to shareholders of \$660,062 (2004 – \$599,849) of which \$320,662 bears interest at 5% and is due on demand. During the year, \$15,270 (2004 – \$15,321) of interest was paid to shareholders.

**9. LOAN PAYABLE**

The loan is a non revolving facility, obtained to purchase a seismic data library, bearing interest at 12%. The loan is secured by a general assignment of book debts and a floating charge debenture in the amount of \$7,500,000. The Company has granted the Lender a gross overriding royalty of 2.0% on the sales revenue received on the seismic data library acquired on November 21, 2005. The loan matures January 31, 2007 and \$2,500,000 is due on or before June 30, 2006.

	2005	2004
Loan payable	\$ 5,000,000	\$ —
Less current portion	(2,500,000)	—
	\$ 2,500,000	\$ —



## 10. INCOME TAXES

a) The components of future income tax balances are as follows:

	2005	2004
Future income tax liability		
Carrying amount of capital assets in excess of tax basis	(173,534)	(5,425)
Carrying amount of deferred financing costs in excess of tax basis	(28,047)	(3,206)
Other	–	1,445
	<b>\$ (201,581)</b>	<b>\$ (7,186)</b>

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 33.62% (2004 – 15.12%) to the earnings for the years as follows:

	2005	2004
Earnings for the year before income taxes	<b>\$ 3,567,869</b>	<b>\$ 501,475</b>
Anticipated income tax expense	<b>\$ 1,199,518</b>	<b>\$ 75,823</b>
Effect of items not deductible for tax purposes	<b>84,004</b>	<b>2,123</b>
Benefit of income tax losses not previously recognized	<b>(1,317,538)</b>	<b>–</b>
Change in valuation allowance	<b>–</b>	<b>(61,723)</b>
Effect of change in tax rates	<b>10,454</b>	<b>3,851</b>
Other	<b>255,578</b>	<b>(882)</b>
Provision for income taxes	<b>\$ 232,016</b>	<b>\$ 19,192</b>

## 11. CONVERTIBLE DEBENTURES

	2005	2004
Convertible debentures issued November 21, 2005	<b>\$ 8,542,000</b>	<b>\$ –</b>
Equity component	<b>381,732</b>	<b>–</b>
	<b>\$ 8,160,268</b>	<b>\$ –</b>

On November 21, 2005, the Company closed a seismic data library acquisition of approximately 23,750 kilometres net of two dimensional and 1,600 square kilometres of three dimensional seismic data. This acquisition costing \$16.2 million was funded in part with the proceeds of an offering, pursuant to which 686,240 Units were issued at \$1.25 per Unit and \$8,542,000 principal amount of convertible debentures were issued for aggregate gross proceeds of \$9,399,800. The Company also entered into a letter agreement with a financial institution to provide up to \$5,000,000 of bridge financing to assist the Company with the aforementioned seismic acquisition (see note 9 of the consolidated financial statements).

Each Unit is comprised of one Common Share of the Company and one half of one Common Share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire an additional Common Share at a price of \$1.80 for a period of 18 months following the closing of the Offering.

Each Debenture bears interest at a rate of 10% per annum and is convertible, in whole or in part, into Common Shares at a conversion price of \$1.40 per Common Share ("the Conversion Price") at any time on or before November 21, 2008 ("the Maturity Date"). At the Maturity Date, the holders of the Debentures shall have the option of either converting their Debentures into Common Shares at the Conversion Price or receiving the cash value of the principal amount of the Debentures into Common Shares at the Conversion Price or receiving the cash value of the principal amount of the Debentures, plus any accrued and unpaid interest.

The Common Shares and Warrants comprising the Units and the Debentures are subject to a hold period of four months from closing.

**12.SHARE CAPITAL****a) Authorized**

- Unlimited number of Common Shares
- Unlimited number of First Preferred Shares
- Unlimited number of Second Preferred Shares

**b) Common shares issued**

	Number	Amount
Balance Old Blue Grouse, December 31, 2003 and 2004	1,667	\$ 1,667
Issued as consideration for the purchase of Silvertip Surveys Ltd., April 1, 2005	2,560	301,333
Balance Old Blue Grouse, July 13, 2005, prior to Amalgamation	4,227	\$ 303,000
Balance Old Blue Grouse, as above, carried forward	4,227	\$ 303,000
Cancellation of shares of Old Blue Grouse, pursuant to Amalgamation	(4,227)	(303,000)
Shares of New Blue Grouse issued in exchange for shares of Old Blue Grouse, pursuant to Amalgamation	2,536,200	303,000
Balance New BlueGrouse, July 14, 2005	2,536,200	303,000
Outstanding shares of Amusements International Inc., converted into shares of New BlueGrouse upon Amalgamation (net of \$1,338,363 issue costs)	121,489,420	3,661,637
Consolidation of shares on Amalgamation	(113,390,125)	—
Issued as consideration pursuant to a private placement dated November 21, 2005	686,240	767,158
Issued pursuant to exercise of Warrants	44,352	33,264
Balance December 31, 2005	11,366,087	\$ 4,765,059

**c) Stock options**

The Company has established a stock option plan for its directors, officers, and employees.

Stock-based compensation of \$155,733 has been recognized in the current year, in respect of stock options. For the purpose of the above calculation, the fair value of each option was estimated on the date of grant using the Black Scholes option pricing model. In applying the model the following assumptions were used: dividend yield of 0%, expected volatility of approximately 0% to 60%, risk free interest rate of 3.4% and expected life of 5 years. The options vest evenly over 3 years.

	Number	Weighted average exercise price
Outstanding December 31, 2003 and 2004	—	\$ —
Granted	1,074,000	1.00
Cancelled	(186,000)	0.75
Outstanding December 31, 2005	888,000	\$ 1.05

Options outstanding	Exercise price	Options exercisable at December 31, 2005	Expiry date
500,000	\$ 0.75	166,667	July 25, 2010
15,000	1.52	5,000	December 14, 2010
93,000	0.75	31,000	July 25, 2010
280,000	1.65	93,333	December 22, 2010
888,000	1.05	296,000	

The Company also issued 2,875,000 performance warrants to all directors, officers and employees at July 25, 2005. Each performance warrant entitles the holder to purchase one Common Share for \$0.75. One-half of the performance warrants vest and maybe exercised upon the weighted average trading price of the common shares of the Company being equal to or greater than \$1.50 for 20 consecutive trading days on the TSX Venture Exchange. The balance of the performance warrants vest and maybe exercised upon the weighted average trading price being equal or greater than \$2.50 for 20 consecutive trading days on the TSX Venture Exchange. During the year 75,000 performance warrants were cancelled.

Compensation expense of \$275,190 has been recognized in the current year, in respect of performance warrants. For the purpose of the above calculation, the fair value of each option was estimated on the date of grant using the Black Scholes option pricing model. In applying the model the following assumptions were used: dividend yield of 0%, expected volatility of approximately 60%, risk free interest rate of 3.4% and expected life of 5 years.

#### d) Warrants

The Company has Warrants outstanding, as detailed below.

	2005		2004	
	Warrants outstanding	Exercise price	Warrants outstanding	Exercise price
Warrants issued pursuant				
to amalgamation (July 14)	172,333	\$ 1.50	—	\$ —
Private placement (July 14)	666,667	0.75	—	—
Exercised	(44,352)	0.75	—	—
Private placement (Nov 21)	343,120	1.80	—	—
Debenture issue (Nov 21)	526,389	1.25	—	—
	1,664,157	1.20	—	—

### 13. CONTRIBUTED SURPLUS

	2005	2004
Stock compensation and performance warrants expense (Note 12)	\$ 430,923	\$ —
Equity component of convertible debentures	381,732	—
	\$ 812,655	\$ —



**14. EARNINGS PER SHARE**

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options outstanding. Earnings per share is calculated as follows:

2005			
	Net earnings	Weighted Average Shares	Earnings per share
Basic	\$ 3,242,137	6,032,039	\$ 0.54
Effect of assumed exercise of stock options		103,213	
Effect of assumed exercise of performance warrants		48,766	
Effect of assumed exercise of warrants		121,596	
Effect of conversion of convertible debentures	93,610	668,650	
Diluted	\$ 3,335,747	6,974,264	\$ 0.46

2004			
	Net earnings	Shares	Earnings per share
Basic and diluted	\$ 482,283	1,000,200	\$ 0.48

**15. LEASE COMMITMENT**

The Company's total commitment, under a property sublease agreement, exclusive of occupancy costs, is as follows:

2006	\$ 180,769
2007	188,516
	\$ 369,285

**16. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of accounts receivable and an amount due from a related party which will result in future cash receipts, and bank loan, accounts payable and accrued liabilities, amounts due to shareholders, and capital lease obligations which will result in future cash outlays. It is management's opinion that the Company is not exposed to significant interest, credit, or currency risk from these financial instruments, and that the fair value approximates the book value, unless otherwise stated.

The fair value of the amounts due to shareholders and from a related party are less than carrying value, as the amounts are non interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

**a) Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a significant number of customers which minimizes concentration of credit risk.

**(b) Fair value**

The Company's carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

**17. COMPARATIVE FIGURES**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Douglas J. Black, QC  
Chairman of the Board

Kris Matthews  
Director

William DeJong  
Director

Todd Chuckry  
President, Chief Executive Officer  
and Director

### OFFICERS

Todd Chuckry  
President, Chief Executive Officer  
and Director

Stan Weber  
Chief Financial Officer

Jeff Kary  
Chief Operating Officer

Leanne Pockar  
Vice President

Lonn Hornsby  
Vice President Sales and Marketing

William Gilliland  
Corporate Secretary

### HEAD OFFICE

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### Registrar and Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta

### Banker

Scotiabank  
Calgary, Alberta

### Legal Counsel

Fraser Milner Casgrain LLP  
Calgary, Alberta

### Auditors

Hudson & Company LLP  
Calgary, Alberta

### Stock Listing

TSX Venture Exchange  
Symbol: BGH





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